

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YNH Network Corporation and Subsidiaries Years Ended September 30, 2012 and 2011 with Report of Independent Auditors

Ernst & Young LLP



Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

Board of Trustees YNH Network Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of YNH Network Corporation and Subsidiaries ("YNHNC") as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of YNHNC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of YNHNC's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of YNHNC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of YNH Network Corporation and Subsidiaries at September 30, 2012 and 2011, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 1 and 9 to the accompanying consolidated financial statements, in 2012 YNHNC changed its method of accounting for estimated insurance claims receivable and insurance claims liabilities with the adoption of Accounting Standards Update 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*.

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Consolidated Balance Sheets

	September 30			· 30
		2012		2011
		(In The	usar	ıds)
Assets				
Current assets:				
Cash and cash equivalents	\$	69,453	\$	74,087
Short-term investments		613,360		402,559
Accounts receivable for services to patients, less allowance for				
uncollectible accounts, charity and free care of approximately				
\$59,851,000 in 2012 and \$43,491,000 in 2011		205,704		169,456
Other receivables		49,207		55,395
Professional liabilities insurance recoveries receivable –current				
portion		15,739		13,514
Other current assets		49,470		25,597
Amounts of deposit with trustee in debt service fund		6,619		6,320
Total current assets	1	1,009,552		746,928
Assets limited as to use		105,688		129,997
Long-term investments		164,238		141,525
Deferred financing costs, less accumulated amortization		5,182		5,488
Professional liabilities insurance recoveries receivable- non-		,		,
current		40,271		50,081
Goodwill		35,685		_
Other assets		175,044		130,986
Property, plant, and equipment:				
Land and land improvements		37,109		21,804
Buildings and fixtures	1	1,089,831		971,195
Equipment		430,266		422,736
		1,557,206]	1,415,735
Less accumulated depreciation		617,488		581,143
		939,718		834,592
Construction in progress		63,603		43,212
	1	1,003,321		877,804
Total assets	\$ 2	2,538,981	\$ 2	2,082,809

	September 30 2012 2011		
Liabilities and net assets	(In Thousands)		
Current liabilities: Accounts payable Accrued expenses	\$ 136,972 170,244	\$ 102,419 121,508	
Professional liabilities- current portion Other current liabilities Current portion capital lease obligation	15,739 3,435 56,240	13,514 3,848 3,740	
Current portion of debt Total current liabilities	45,424 428,054	10,411 255,440	
Long-term debt, net of current portion Long-term capital lease obligation, net of current portion Accrued pension and postretirement benefit obligations Professional liabilities Other long-term liabilities Deferred revenue	674,969 56,395 280,718 105,313 180,608 53,625	509,248 112,649 240,901 75,533 155,515 48,321	
Total liabilities Commitments and contingencies	1,779,682	1,397,607	
Net assets: Unrestricted Temporarily restricted Permanently restricted	686,529 46,026 26,744	615,732 43,947 25,523	
Total net assets	759,299	685,202	
Total liabilities and net assets	\$ 2,538,981	\$ 2,082,809	

See accompanying notes.

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30			
	2012	2011		
	(In The	ousands)		
Operating revenue:				
Net patient service revenue	\$ 1,733,252	\$ 1,462,366		
Other revenue	49,518	48,257		
Total operating revenue	1,782,770	1,510,623		
Operating expenses:				
Salaries and benefits	764,840	697,187		
Supplies and other expenses	768,962	629,660		
Depreciation	74,623	69,390		
Insurance	15,815	13,514		
Bad debts	32,863	26,664		
Interest	18,104	16,900		
Total operating expenses	1,675,207	1,453,315		
Income from operations	107,563	57,308		
Non-operating gains and losses, net	22,853	13,708		
Excess of revenue over expenses	130,416	71,016		

(Continued on next page).

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30 2012 2011			
		(In Thousands)		
Unrestricted net assets: Excess of revenue over expenses (continued) Other changes in net assets Transfer to Yale-New Haven Health Services Corporation –	\$	130,416 397	\$	71,016 36
Clinical Development Fund Transfer from Yale-New Haven Health Services Corporation Net assets released from restrictions for purchases of		(9,000) 2,900		(12,000) 2,900
fixed assets		258		1,774
Pension and other postretirement liability adjustments		(54,174)		(28,727)
Increase in unrestricted net assets		70,797		34,999
Temporarily restricted net assets:				
Income from investments		280		512
Net realized gains on investments		471		3,065
Change in net unrealized gains and losses on investments		6,394		319
Bequests and contributions Net assets released from restrictions for purchases of		11,847		15,280
fixed assets		(258)		(1,774)
Net assets released from restrictions for free care		(889)		(782)
Net assets released from restrictions for operations		(2,962)		(5,003)
Net assets released from restrictions for clinical programs		(12,804)		(16,195)
Increase (decrease) in temporarily restricted net assets		2,079		(4,578)
Permanently restricted net assets:				
Change in beneficial interest in perpetual trusts		1,221		(733)
Increase (decrease) in permanently restricted net assets		1,221		(733)
Increase in net assets	-	74,097		29,688
Net assets at beginning of year		685,202		655,514
Net assets at end of year	\$	759,299	\$	685,202

See accompanying notes.

Consolidated Statements of Cash Flows

Cash flows from operating activities Increase in net assets (In Thousands) \$ 74,097 \$ 29,688	Year Ended S	
Cash flows from operating activities Increase in net assets \$ 74,097 \$ 29,688	<u>2012</u>	2011
Increase in net assets \$ 74,097 \$ 29,688	· ·	rusands)
		¢ 20.699
		\$ 29,088
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		60 200
•		69,390
Net realized and change in net unrealized gains and losses on investments (60,465) (21,802) Change in fair value of interest rate swap agreements 7,318 4,421		(21,802)
		(885)
		317
		26,664
		733
		12,000
		(2,900)
		(16,941)
		28,727
Changes in operating assets and liabilities:		20,727
		(57,310)
		(18,500)
		(55,677)
		(2,527)
		12,178
Professional insurance recoveries and liabilities 39,590 2,103		
Other current liabilities, accrued pension and postretirement benefit obligations, other long-term	·	,
liabilities, and deferred revenue (32,424) 27,199		27,199
Net cash provided by operating activities 170,426 36,878		
Cash flows from investing activities		
		(79,924)
, ,		3,054
Cash paid for acquisition, net of cash acquired (133,800)		_
	(173,049)	(27,189)
		(1,696)
		(65,079)
		(12,000)
· · · · · · · · · · · · · · · · · · ·		2,900
Net cash used in investing activities (387,702) (179,934)	vities (387,702)	(179,934)
Cash flows from financing activities	rtivities	
8 and the second		105,436
		40,000
		(3,425)
		(13,885)
	(10,712)	(1,956)
Bequests, and contributions, net of pledges 14,807 16,941	et of pledges 14 807	
Net cash provided by financing activities 212,642 143,111	<u> </u>	
		55
Net (decrease) increase in cash and cash equivalents (4,634) 55	and cash equivalents (4,034)	55
Cash and cash equivalents at beginning of year 74,032	eginning of year 74,087	74,032
Cash and cash equivalents at end of year \$ 69,453 \$ 74,087		\$ 74,087

See accompanying notes.

Notes to Consolidated Financial Statements

September 30, 2012

1. Organization and Significant Accounting Policies

Organization

YNH Network Corporation and Subsidiaries ("YNHNC") is a Connecticut not-for-profit, non-stock corporation established to promote and carry out charitable, scientific and educational activities. YNHNC is the sole member of Yale-New Haven Hospital, Inc. (the "Hospital"), Yale-New Haven Care Continuum Corporation ("YNHCCC"), and the parent organization of Yale-New Haven Ambulatory Services Corporation and Subsidiaries ("ASC") and York Enterprises, Inc. and Subsidiaries ("York"). YNHNC controls, through contractual agreements, Quinnipiac Medical P.C. ("QMPC") and Community Healthcare Physicians ("CHCP"). YNHNC has an affiliation agreement with Yale-New Haven Health Services Corporation ("YNHHSC") in which YNHHSC is the sole member of YNHNC.

YNHHSC is also the sole member of two similar organizations. Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. YNHNC and subsidiaries continue to operate with a separate Board of Trustees, management staff and medical staff; however, YNHHSC must approve the strategic plans, operating and capital budgets and Board of Trustees appointments of YNHNC and subsidiaries.

The Hospital is a voluntary association incorporated under the General Statutes of the State of Connecticut.

ASC, a Connecticut non-stock, taxable corporation, operates a recovery care center and is 51% owner of Shoreline Surgery Center, LLC ("SSC") and SSC II, LLC ("SSC II").

York is organized as a Connecticut corporation for the purpose of initiating or acquiring business entities. Currently, York has two subsidiaries: Medical Center Pharmacy and Home Care Center, Inc. ("MCP") and Medical Center Realty, Inc. ("MCR"). MCP is a Connecticut stock, for-profit company which operates a retail pharmacy. MCR is a Connecticut stock, for-profit company which owns or holds leases on YNHHSC's affiliated real estate, such as physician office buildings, commercial space and parking garages. York is the sole shareholder of MCP and MCR.

QMPC and CHCP are Connecticut stock, for-profit, professional corporations formed in 1994 and 1996, respectively, to employ New Haven area primary care physicians. All of the stock of QMPC and CHCP is owned by the Chief of Staff of the Hospital, who has assigned his rights in QMPC and CHCP to YNHNC.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

YNHCCC, a Connecticut non stock corporation, is a wholly-owned subsidiary of Yale-New Haven Network Corporation ("YNHNC"). YNHCCC provides long-term care for those unable to live independently and short-term rehabilitation for patients who have experienced elective surgery, an injury, or a traumatic major illness. Its services include respite care for family members and caregivers, stroke recovery for victims of strokes, orthopedic recovery services, medications and diagnostic services (such as radiological services).

Acquisition

On September 12, 2012, the Hospital, ASC, YNHCCC, and York, acquired substantially all of the business, assets, and operations and assumed certain liabilities of the Saint Raphael Healthcare System, Inc. ("SRHS"), including substantially all of the assets of its wholly-owned subsidiary, the Hospital of Saint Raphael ("HSR"), a 511-bed acute care hospital located in New Haven, CT. Other affiliates of SRHS whose assets were acquired in connection with the transaction include the following:

- Saint Regis Health Center, Inc. d/b/a Sister Anne Virginie Grimes Health Center ("Grimes"), a tax-exempt, skilled nursing facility that operated with 120 licensed beds which was a wholly-owned subsidiary of SRHS. In connection with the transaction, YNHCCC acquired substantially all of the land, buildings, equipment and bed licenses associated with Grimes.
- Caritas Insurance Company, Ltd. ("Caritas") a Vermont-domiciled, captive insurance company licensed under Chapter 141 of Title 8 of the Vermont Statutes Annotated. Caritas is a tax-exempt supporting organization having the Hospital as its sole shareholder. Caritas provides excess professional liability coverage and general liability coverage. Caritas was a wholly-owned subsidiary of HSR.
- Lukan Indemnity Company, Ltd. ("Lukan") a Bermuda-domiciled captive insurance company that provides primary professional liability coverage. Lukan was a whollyowned subsidiary of HSR. In connection with the transaction, the Hospital acquired 100% of the stock of Lukan.
- DePaul Health Services Corporation ("DePaul") a Connecticut nonstock corporation which held interests in investments and other assets on behalf of HSR. In connection with the transaction, ASC acquired certain investments from DePaul.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

• Saint Raphael Foundation, Inc. (the "Foundation") a tax-exempt fundraising foundation of HSR which was a subsidiary of SRHS. In connection with the transaction, certain assets of the Foundation were acquired by the Hospital.

The total consideration transferred by the Hospital, ASC, YNHCCC and York was approximately \$237.9 million, including \$160.0 million in cash and an installment payable plus the assumption of liabilities totaling \$77.9 million, as follows (in thousands).

Cash consideration	\$ 150,000
Installment payments	10,000
Assumption of liabilities	77,927
Total consideration transferred	\$ 237,927

The acquisition of HSR included installment payments in the amount of \$10 million payable in two equal installments in October 2012 and March 2013. The first installment payment of \$5 million was made on October 12, 2012.

The Hospital and its affiliates have accounted for the business combination applying the acquisition method of accounting in accordance with Accounting Standards Codification Topic 805, *Business Combinations*.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the acquisition date. Determining the fair value of the assets acquired and liabilities assumed requires judgment and involves the use of significant accounting estimates and assumptions, including assumptions with respect to future cash inflows and outflows and discount rates, among others.

	Hospital	ASC	YNHCCC	York	Total
Assets acquired:					
Cash	\$ 16,200	\$ _	\$ _	\$ _	\$ 16,200
Other current assets	7,240	_	_	187	7,427
Other receivables	7,400	_	_	_	7,400
Goodwill	35,685	_	_	_	35,685
Other long-term assets	53,771	12,500	700	_	66,971
Property, plant and equipment	100,156	_	4,075	13	104,244
	220,452	12,500	4,775	200	237,927
Liabilities assumed:					
Accrued expenses	36,419	_	775	_	37,194
Other long-term liabilities	40,733	_	_	_	40,733
Total	77,152	_	775	_	77,927
Assets and liabilities acquired	\$ 143,300	\$ 12,500	\$ 4,000	\$ 200	\$ 160,000
Cash paid for acquisition	\$ 150,000	\$ _	\$ _	\$ _	\$ 150,000
Installment payments	\$ 10,000	\$ _	\$ _	\$ _	10,000
Change in net assets					<u> </u>

The Hospital recorded goodwill in the amount of \$35.7 million. In determining the amount of goodwill, all assets acquired and liabilities assumed were measured at fair value as of the acquisition date. Factors contributing to goodwill that resulted from the acquisition include, but are not limited to, the efficiencies that will result from the combination of the campuses and their proximity.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

As part of the acquisition ASC acquired an non-controlling equity interest in the following three investments:

- ASC acquired a 49% equity interest in Saint Raphael Dialysis Center ("SDC"). SDC is an outpatient dialysis center with 4 locations to treat people with chronic kidney failure.
- ASC acquired a 50% equity interest in Saint Raphael Magnetic Resonance Partnership ("SRMP") SRMP provides radiology services using a magnetic resonance imaging machine.
- ASC acquired a 49% equity interest in Connecticut CK Leasing LLC ("CCK"). CCK provides radiation to treat malignant and benign tumors.

Total assets and liabilities of SDC, SRMP and CCK were approximately \$16.4 million and \$2.7 million, respectively, at September 30, 2012.

YNHCCC, ASC and York each respectively paid amounts equal to the fair values for assets acquired, net of liabilities assumed, with cash provided by the Hospital.

The results of HSR for the period September 12, 2012 through September 30, 2012 have been combined with the Hospital and included in the consolidated financial statements.

The following table summarizes amounts attributed to SRHS since the acquisition date that are included in the accompanying consolidated financial statements (in thousands):

	Period From September 12, 2012 to September 30, 2012
Total operating revenue	\$ 22,907
Total operating expense	24,191
Loss from operations	(1,284)
Non-operating gains and losses, net	71
Deficiency of revenue over expenses	\$ (1,213)
Change in net assets:	
Unrestricted net assets	\$ (1,201)
Temporarily restricted net assets	_
Permanently restricted net assets	
Total change in net assets	\$ (1,201)

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The following table represents pro forma financial information, assuming the acquisition of SRHS had taken place October 1, 2010. The pro forma information includes adjustments for the amortization of intangible assets. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the acquisition date (in thousands).

	Year Ended September 30,			
		2012		2011
Total operating revenue Total operating expense		2,292,520 2,197,512	\$	2,027,219 1,968,834
Gain from operations		108,640		58,835
Non-operating gains and losses, net		24,220		14,101
Excess of revenue over expenses	\$	132,860	\$	72,486
Change in net assets:				
Unrestricted net assets	\$	72,164	\$	10,136
Temporarily restricted net assets		2,079		(2,986)
Permanently restricted net assets		1,221		(2,565)
Total change in net assets	\$	72,464	\$	4,585

Disposal

In 2011, MCP sold all of the fixed assets at all of its five locations and the business operations to Walgreens for approximately \$5.0 million. The gain on sale, resulting from the transaction was approximately \$4.9 million, which is included in non-operating gains and losses in the accompanying consolidated statements of operations and changes in net assets. The following table summarizes the disposal group:

	September 30 2011		
Carrying value of disposed assets Carrying value of disposed liabilities	\$ 150,334		
Revenue Excess of revenue over expenses of disposal group	8,472,388 (564,358)		

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The other current assets and property, plant, and equipment acquired by York as part of the SRHS transaction relate to a retail pharmacy acquired that began operations as of the acquisition date

Principles of Consolidation

The accompanying consolidated financial statements present the accounts and transactions of YNHNC and its subsidiaries (the Hospital, ASC, York, YNHCCC, QMPC and CHCP). All significant intercompany revenue and expenses and intercompany balance sheet accounts have been eliminated in consolidation. The minority interests in SSC and SSC II are not material to the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated net settlements with third-party payors and professional liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements

Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

During fiscal 2012 and 2011, the Hospital recorded a change in estimate of approximately \$10.2 million and \$10.6 million, respectively. Included in the change are amounts related to favorable third-party payor settlements at September 30, 2012 and 2011, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by YNHNC has been limited by donors to a specific time period or purpose and appreciation on permanently restricted net assets. Permanently restricted net assets have been restricted by donors to be maintained by YNHNC in perpetuity. YNHNC is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The investment income generated from these trusts is unrestricted and the assets are classified as permanently restricted.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The restricted funds investments are pooled with unrestricted investments to facilitate their management. Investment income is allocated to the restricted funds using the market value unit method. The Board of Trustees approves spending for certain pooled funds based on total return. Realized gains and losses from the sale of securities are computed using the average cost method.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions receivable to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recognized as revenue and is classified as either unrestricted or temporarily restricted in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions receivable, included in other receivables and other assets in the accompanying consolidated balance sheets at September 30, 2012 and 2011, are expected to be received as follows (in thousands):

	September 30		
	2012	2011	
Less than one year	\$ 1,596	\$ 1,187	
One to five years	2,054	1,662	
	3,650	2,849	
Less unamortized discount on contributions receivable			
(0.3% to 4.2%)	(108)	(174)	
	3,542	2,675	
Allowance for uncollectible contributions	(106)	(80)	
	\$ 3,436	\$ 2,595	

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less when purchased, which are not classified as assets limited as to use and which are not maintained in the short-term or long-term investment portfolios.

Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is YNHNC's policy to monitor the financial strength of these institutions

Accounts Receivable

Patient accounts receivable result from the health care services provided by YNHNC. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

Investments

YNHNC has designated its investment portfolio as trading. Investment income or loss (including realized gains and losses on investments, interest and dividends) and the change in net unrealized gains and losses are included in the excess of revenue over expenses unless the income or loss is restricted by donor or law.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value (quoted market prices) in the accompanying consolidated balance sheets

Certain alternative investments (non-traditional, not-readily-marketable assets) are structured such that YNHNC holds limited partnership interests or pooled units and are accounted for under the equity method and utilizing Yale University's (the "University") reported net asset value per unit for measurement of the units' fair value for the Yale University investment. Individual investment holdings within the alternative investments may, in turn, include investments in both non-marketable and market-traded securities. Valuations of those investments and, therefore, YNHNC's holdings may be determined by the investment manager or general partner. Fund of funds investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The equity method reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose YNHNC to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, YNHNC's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors. YNHNC has made investment commitments of approximately \$80.9 million in these alternative investments, of which approximately \$77.4 million has been funded as of September 30, 2012.

YNHNC participates in the Yale New Haven Health System Investment Trust (the "Trust"), a unitized Delaware Investment Trust created to pool assets for investment by the Health System non-profit entities. The Trust is comprised of two pools: the Long-Term Investment Pool ("L-TIP") and the Intermediate-Term Investment Pool ("I-TIP"). Governance of the Trust is performed by the Yale New Haven Health System Investment Committee.

Under the terms of the investment management agreement with the Trust, withdrawals of the Hospital's investment in the L-TIP can be made annually by the Hospital on July 1. Amounts withdrawn are subject to a schedule that allows larger withdrawals with longer notice periods. As of September 30, 2012, the Hospital can withdraw 100% of its investment in the L-TIP on July 1, 2013. Withdrawals of the Hospital's investment in the I-TIP in any amount can be made quarterly with 30 days advance notice.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The Trust has an agreement with the University's investment office (the "Investment Management Agreement") which allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the "Pool"). Under the terms of the agreement for the years ended September 30, 2012 and 2011, the Trust transferred \$50.0 million and \$100.0 million, respectively, to the University in exchange for units in the Pool. The Trust's interest in the Pool is reported at fair value based on the net asset value per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real assets, fixed income and cash.

Under the terms of the investment management agreement with the University, withdrawals of the Trust's investment in the Pool can be made annually by the Trust on July 1. For withdrawals of amounts less than \$150.0 million or 75% of the Trust's investment in the Pool, \$100.0 million or 50% of the Trust's investment in the Pool, and \$50.0 million or 25% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 180 days, 90 days, and 30 days, respectively, prior to the University's fiscal year ending June 30. For withdrawals greater than \$150.0 million or more than 75% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 270 days prior to the University's fiscal year end of June 30.

In March 2006, the Hospital entered into an arrangement with the University whereby the University will manage certain Board-designated assets of the Hospital. These Board-designated assets are commingled in the University's endowment pool. At September 30, 2012 and 2011, the carrying value of assets managed by the University under this arrangement was approximately \$8.5 million and \$8.6 million, respectively. Because of the limitations on their use, the assets are separately classified from assets invested under the Investment Management Agreement.

In 2011, the investment management agreement between the Trust and the University was modified to allow the Trust to obtain a cash advance, up to a maximum of \$75 million, on a monthly basis. For these advances interest of U.S. Prime rate, plus two percent (2%) will be paid by the Trust. Repayments on the advances are made by the Trust by way of redemptions of a sufficient number of Trust's units in the Endowment using the June 30th unit valuation. No advances have been requested or taken by the Trust.

Short-term investments represent those securities that are available for YNHNC's operations and can be converted to cash within one year.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost or market. YNHNC values its inventories using the first-in, first-out method with the exception of pharmacy inventories, which are valued at average cost.

Assets Limited as to Use

Assets so classified represent assets held by trustees under indenture agreements, beneficial interest in perpetual trusts and designated assets set aside by the Board of Trustees for future capital improvements and other Board approved uses. The Board of Trustees retains control and, at its discretion, may use for other purposes assets limited as to use for plant improvements and expansion. Amounts required to meet current liabilities are reported as current assets. These funds consist primarily of U.S. Government securities, mutual funds and money market funds.

Perpetual Trusts

YNHNC is the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured based on the fair value of the assets held by the trust, are recognized as assets and contribution revenue at the dates the trusts are established. Distributions from the trusts related to earnings and investment income are recorded as contributions and the carrying value of the assets is adjusted for changes in the fair value.

Interest Rate Swap Agreements

YNHNC utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. Interest rate swap agreements are reported at fair value. YNHNC is exposed to credit loss in the event of non-performance by the counterparties to its interest rate swap agreements. YNHNC is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable rate payments do not equal variable interest payments on the bonds, there will be a net loss or net benefit to YNHNC.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Benefits and Insurance

YNHNC is effectively self-insured for medical, hospitalization, dental and prescription drug benefits provided to employees. YNHNC makes annual contributions to the YNHHSC Voluntary Employee Beneficiary Association ("VEBA") plan to fund medical, dental, hospitalization, group term life insurance and prescription drug benefits. Annually, premiums are set to reflect the estimated cost of benefits. During the years ended September 30, 2012 and 2011, YNHNC made actuarially determined contributions, net of premium adjustments, to the VEBA plan of approximately \$102.5 million and \$89.4 million, respectively.

YNHNC is self-insured for workers' compensation claims. Estimated amounts are accrued for claims, including claims incurred but not reported ("IBNR") and are based on YNHNC-specific experience. At September 30, 2012 and 2011, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately \$13.3 million, discounted at 3.0%, and \$13.4 million, discounted at 3.5%, respectively, and are included in accrued expenses in the accompanying balance sheets.

Professional Liability Insurance

YNHNC participates in the YNHHSC coordinated professional liability program. Based on the terms of the agreement with YNHHSC, YNHNC records the actuarially determined liabilities for IBNR professional and general liabilities and has recorded a deposit (asset) for liabilities transferred in the year ended September 30, 1998.

Property, Plant, and Equipment

Property, plant, and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in income from operations. Depreciation of property, plant, and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 50 years. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The Hospital and the Housing Authority of New Haven ("HANH") have entered into an agreement to swap parcels of land on the Legion/Howard/Sylvan/Ward block located in New Haven, Connecticut. As part of the key terms of the agreement, HANH has pledged an account to the Hospital in the amount of \$5.7 million. The pledged account was established at the time the Hospital conveyed the land to HANH in July 2010. In the event that HANH fails to meet certain requirements of the agreement, including conveying its land parcel to the Hospital, the Hospital has the right to withdraw from the pledged account in the amount of \$5.2 million, unless the pledged account is extended with an annual increase of approximately \$180,000. As of September 30, 2011, no events have occurred that would require an increase to the pledged account or that would require the Hospital to withdraw funds from the pledged account.

Goodwill

Goodwill is not amortized but instead tested at least annually for impairment or more frequently when events or changes in circumstances indicate that the assets might be impaired. This impairment test is performed annually at the reporting unit level. YNHNC evaluates goodwill at the entity level as management has determined that YNHNC's operation comprise a single reporting entity. Goodwill is considered to impaired if the carrying value of the reporting unit, including goodwill, exceeds the reporting unit's fair value. Reporting unit fair value is estimated using both income (discounted cash flows) and market approaches.

The discounted cash flow approach requires the use of assumptions and judgments including estimates of future cash flows and the selection of discount rates. The market approach relies on comparisons to publicly traded stocks or to sales of similar companies. YNHNC has determined that no goodwill impairment exists at September 30, 2012.

Deferred Revenue

Deferred revenue includes amounts which have been received that relate to future years. Amounts will be reduced as revenue is earned.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Excess of Revenue over Expenses

In the accompanying consolidated statements of operations and changes in net assets, excess of revenue over expenses is the performance indicator. Peripheral or incidental transactions are included in excess of revenue over expenses. Those gains and losses deemed by management to be closely related to ongoing operations are included in other revenue; other gains and losses are classified as non-operating. Included in non-operating gains and losses are expenses related to the proposed acquisition with the Saint Raphael Healthcare System.

Consistent with industry practice, contributions of, or restricted to, property, plant, and equipment, transfers of assets to and from affiliates for other than goods and services, and pension and other post-retirement liability adjustments are excluded from the performance indicator but are included in the change in net assets.

Income Taxes

YNHNC, YNHCCC and the Hospital are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code"), and are exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code. YNHNC and the Hospital are also exempt from state income tax.

ASC, York, QMPC and CHCP are subject to federal and state corporate income taxes. Deferred income taxes are provided on temporary differences between financial statement and tax reporting. The provision for income taxes and deferred taxes are not material to the consolidated financial statements

Operating Expenses

YNHNC records amounts received from the University, area hospitals and other local healthcare providers for costs incurred on behalf of those organizations as reductions to expenses. For the years ended September 30, 2012 and 2011, YNHNC recorded approximately \$52.9 million as reductions to expenses.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Deferred Financing Costs

YNHNC capitalizes costs incurred in connection with the issuance of long-term debt and amortizes these costs over the life of the respective obligations using the effective interest method.

Impairment of Assets

YNHNC reviews property, equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such impairment indicators are present, YNHNC recognizes a loss on the basis of whether these amounts are fully recoverable.

Change in Accounting Principle

In August 2010, the Financial Accounting Standards Board ("FASB") issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which provides clarification to companies in the health care industry on the accounting for and presentation of professional and similar contingent liabilities. Under the new guidance, these liabilities should not be presented net of insurance recoveries and an insurance recovery receivable should be recognized on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts. The new guidance became effective for the YNHNC as of October 1, 2011. YNHNC elected to retrospectively adopt the guidance as of October 1, 2010. The adoption resulted in an increase to current assets and liabilities of approximately \$13.5 million and an increase to long-term assets and liabilities of approximately \$50.1 million as of September 30, 2011. The adoption did not affect YNHNC's financial condition, net results of operations, or cash flows.

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

New Accounting Pronouncement

In July 2011, the FASB issued Accounting Standards Update No. 2011-07, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities" ("ASU 2011-07"). Under ASU 2011-07, provision for bad debts related to patient service revenue will be presented as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations with enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts. YNHNC will adopt the presentation changes to the statement of operations for periods beginning after December 15, 2011.

In August 2010, the FASB issued Accounting Standards Update ("ASU") 2010-23, *Measuring Charity Care for Disclosure*. The new guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. The new disclosure requirements became effective for YNHNC on October 1, 2011 and are included in the accompanying consolidated financial statements for all periods presented.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2011 balances previously reported in the balance sheets in order to conform with the year ended September 30, 2012 presentation.

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue

YNHNC has agreements with third-party payors that provide for payments to YNHNC at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program, includes premium revenue and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

Third-party payor receivables included in other receivables were \$28.4 million and \$31.1 million at September 30, 2012 and 2011, respectively. Third-party payor receivables included in other long-term assets were \$16.7 million and \$12.3 million at September 30, 2012 and 2011, respectively. Third-party payor liabilities included in other current liabilities were \$2.8 and \$1.3 million at September 30, 2012 and 2011, respectively. Third-party payor liabilities included in other long-term liabilities were \$28.6 million and \$28.3 million at September 30, 2012 and 2011, respectively.

YNHNC has established estimates based on information presently available, of amounts due to or from Medicare, Medicaid and third-party payors for adjustments to current and prior year payment rates, based on industry-wide and YNHNC-specific data. Such amounts are included in the accompanying consolidated balance sheets. Additionally, certain payors' payment rates for various years have been appealed by YNHNC. If the appeals are successful, additional income applicable to those years might be realized.

Revenue from Medicare and Medicaid programs accounted for approximately 27% and 14%, respectively, of YNHNC's net patient service revenue for the year ended September 30, 2012 and approximately 28% and 14%, respectively, of YNHNC's net patient service revenue for the year ended September 30, 2011. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 30% and 29%, respectively, for the year ended September 30, 2012 and approximately 31% and 28%, respectively, for the year ended September 30, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

YNHNC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing except as disclosed in Note 10. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on YNHNC. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement for various years ranging through 2006 for Medicare and through 1995 for Medicaid. Other years remain open for settlement.

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

The significant concentrations of accounts receivable for services to patients include 28% from Medicare, 11% from Medicaid, and 61% from non-governmental payors at September 30, 2012 and 29% from Medicare, 8% from Medicaid, and 63% from non-governmental payors at September 30, 2011.

Net patient service revenue is comprised of the following for the years ended September 30, 2012 and 2011 (in thousands):

	2012	2011
Gross revenue from patients	\$ 5,822,356	\$ 4,524,118
Deductions:		
Contractual allowances	4,010,121	3,000,453
Charity and free care (at charges)	78,983	61,299
Net patient service revenue	\$ 1,733,252	\$ 1,462,366

3. Uncompensated Care and Community Benefit Expense

YNHNC's commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.

YNHNC makes available free care programs for qualifying patients. In accordance with the established policies of YNHNC, during the registration, billing and collection process a patient's eligibility for free care funds is determined. For patients who were determined by YNHNC to have the ability to pay but did not, the uncollected amounts are bad debt expense. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by YNHNC, care given but not paid for, is classified as charity care.

Together, charity care and bad debt expense represent uncompensated care. The estimated cost of total uncompensated care is approximately \$69.8 million and \$55.9 million for the years ended September 30, 2012 and 2011, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by claims activity.

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

The estimated cost of charity care provided was \$47.8 million and \$32.3 million for the years ended September 30, 2012 and 2011, respectively. The estimated cost of charity care is based on the ratio of cost to charges. The allocation between bad debt and charity care is determined based on management's analysis on the previous 12 months of hospital data. This analysis calculates the actual percentage of accounts written off or designated as bad debt versus charity care while taking into account the total costs incurred by the hospital for each account analyzed.

For the years ended September 30, 2012 and 2011, bad debt expense, at charges, was \$32.9 million and \$26.7 million, respectively. The bad debt expense is multiplied by the ratio of cost to charges for purposes of inclusion in the total uncompensated care amount identified above.

The Connecticut Disproportionate Share Hospital Program ("CDSHP") was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During the years ended September 30, 2012 and 2011, the Hospital received \$73.2 million and \$33.0 million, respectively, in CDSHP distributions, of which approximately \$51.9 million and \$23.0 million was related to charity care. The Hospital made payments into the CDSHP of \$56.5 million and \$14.1 million for the years ended September 30, 2012 and 2011, respectively, for the 1% assessment.

Additionally, YNHNC provides benefits for the broader community which includes services provided to other needy populations that may not qualify as poor but need special services and support. Benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. The benefits are provided through the community health centers, some of which service non-English speaking residents, disabled children, and various community support groups. YNHNC voluntarily assists with the direct funding of several City of New Haven programs, including an economic development program and a youth initiative program.

In addition to the quantifiable services defined above, the YNHNC provides additional benefits to the community through its advocacy of community service by employees. The YNHNC's employees serve numerous organizations through board representation, membership in associations and other related activities. The YNHNC also solicits the assistance of other healthcare professionals to provide their services at no charge through participation in various community seminars and training programs.

Notes to Consolidated Financial Statements (continued)

4. Investments and Assets Limited as to Use

The composition of investments, including investments held by the Trust, amounts on deposit with trustee in debt service fund and assets limited as to use is set forth in the following table (in thousands):

	September 30			
	2012	2011		
Money market funds	\$ 156,663	\$ 108,579		
U.S. equity securities	28,378	11,113		
U.S. equity securities –common collective trusts	6,331	33,319		
International equity securities (a)	40,019	37,523		
Fixed income:	,	,		
U.S. government	87,329	41,719		
U.S. government – common collective trusts	82,872	58,205		
International government (b)	43,236	31,704		
Commodities	676	1,010		
Hedge funds:				
Absolute return (c)	48,614	44,783		
Long/short equity (d)	12,205	12,653		
Real estate (e)	9,905	10,168		
Interest in Yale University endowment pool (f)	361,550	278,719		
Perpetual trusts (g)	12,127	10,906		
Total	\$ 889,905	\$ 680,401		

⁽a) Investments with external international equity and bond managers that are domiciled in the United States. Investment managers may invest in American or Global Depository Receipts (ADR,GDR) or in direct foreign securities.

- (e) Investments with external direct real estate managers and fund of funds managers. Investment vehicles include both closed end REITs and limited partnerships.
- (f) Yale University Endowment Pool maintains a diversified investment portfolio, through the use of external investment managers operating in a variety of investment vehicles, including separate accounts, limited partnerships and commingled funds. The pool combines an orientation to equity investments with an allocation to non-traditional asset classes such as an absolute return, private equity, and real assets.
- (g) Investments consist of several domestic and international equity and fixed income mutual funds, REITs, commodities and money market funds. There is also an investment in a hedge fund of funds.

⁽b) Investments with external commodities futures manager.

⁽c) Investment with external multi-strategy fund of funds manager investing in publicly traded equity and credit holdings which may be long or short positions.

⁽d) Investment with an external long-short equity fund of funds manager with underlying portfolio investments consisting of publicly traded equity positions.

Notes to Consolidated Financial Statements (continued)

4. Investments and Assets Limited as to Use (continued)

The Hospital's ownership percentage of the Trust was approximately 85.8% and 85.2% as of September 30, 2012 and 2011, respectively. The Hospital's prorata portion of the Trust's investments are included above in the table.

Included in assets limited as to use at September 30, 2012 are funds to be used for the various renovations and expansion at the Hospital which was funded by the Series M bond (see Note 7). These funds consisted of money market funds of approximately \$13.3 million and \$60.7 million at September 30, 2012 and 2011, respectively.

5. Endowment

YNHNC's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

YNHNC has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, YNHNC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment related to YNHNC's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by YNHNC in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, YNHNC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of YNHNC and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of YNHNC; and (7) the investment and spending policies of YNHNC.

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

Changes in endowment net assets for the years ended September 30, 2012 are as follows (in thousands):

	mporarily estricted	manently estricted	Total
Endowment net assets, beginning of year	\$ 37,338	\$ 25,523	\$ 62,861
Investment return:			
Investment income	249	_	249
Net appreciation (realized and unrealized)	6,213	_	6,213
Total investment return	6,462	_	6,462
Contributions	2	_	2
Appropriation of endowment assets for expenditure	(7,124)	_	(7,124)
Other changes:			
Change in value of beneficial interest trusts	_	1,221	1,221
Endowment net assets, end of year	\$ 36,678	\$ 26,744	\$ 63,422

Changes in endowment net assets for the year ended September 30, 2011 are as follows (in thousands):

	mporarily estricted	manently estricted	Total
Endowment net assets, beginning of year	\$ 41,829	\$ 26,256	\$ 68,085
Investment return:			
Investment income	443	_	443
Net appreciation (realized and unrealized)	3,104	_	3,104
Total investment return	3,547	_	3,547
Contributions	2	_	2
Appropriation of endowment assets for expenditure	(8,040)	_	(8,040)
Other changes:			
Change in value of beneficial interest trusts	_	(733)	(733)
Endowment net assets, end of year	\$ 37,338	\$ 25,523	\$ 62,861

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

	September 30,		
	2012	2011	
	(in the	ousands)	
The portion of perpetual endowment funds subject to a			
time restriction under CUPMIFA:			
Without purpose restrictions	\$ 8,297	\$ 8,478	
With purpose restrictions	28,381	28,860	
Total endowment funds classified as temporarily restricted			
net assets	\$ 36,678	\$ 37,338	

Return Objectives and Risk Parameters

YNHNC has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that over time provide a rate of return that meets the spending policy objectives adjusted for inflation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, YNHNC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). YNHNC targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

YNHNC has a policy of appropriating for distribution each year based on a combination of the weighted average of the prior year spending adjusted for inflation and the amount that would have been spent using a predetermined percentage of the current market value of the endowment fund. In establishing this policy, YNHNC considered the long-term expected return on its endowment.

Notes to Consolidated Financial Statements (continued)

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes (in thousands):

	September 30		
	2012	2011	
Plant improvement and expansion Specific hospital operations, teaching, research, free care, and training	\$ 568 45,458	\$ 441 43,506	
	\$46,026	\$43,947	

Permanently restricted net assets of approximately \$26.7 million and \$25.5 million at September 30, 2012 and 2011, respectively, consist of donor restricted endowment principal and beneficial interests in perpetual trusts. The income generated from permanently restricted funds is expendable for purposes designated by donors, including research, free care, health care, and other services.

7. Debt

A summary of debt is as follows (in thousands):

	September 30		
	2012	2011	
Revenue bonds financed with the State of Connecticut Health and			
Educational Facilities Authority ("CHEFA"):			
Series $J - 5.12\%$ effective interest rate (Hospital)	\$ 159,110	\$ 164,295	
Series $K - 3.11\%$ effective interest rate (Hospital)	94,955	98,305	
Series $L - 3.68\%$ effective interest rate (Hospital)	107,460	107,460	
Series $M - 5.24\%$ effective interest rate (Hospital)	100,175	101,825	
Bank line of credit payable (Hospital)	187,000	_	
Bank line of credit payable (Hospital)	25,000	_	
Bank note payable-0.08% effective interest rate (Hospital)	40,000	40,000	
Term loan payable (ASC)	225	452	
Capital lease obligation – November 2010 (Hospital)	53,827	55,309	
Capital lease obligation – December 2010 (Hospital)	53,702	55,082	
Capital lease obligations, at varying rates of imputed interest of			
6.25%, collateralized by leased equipment (York)	5,107	5,998	
	826,561	628,726	
Add premium	6,467	7,322	
Less current portion	(101,664)	(14,151)	
	\$ 731,644	\$ 621,897	

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

In September 2006, the Hospital issued Series J revenue bonds totaling approximately \$280.9 million. The proceeds, including a premium of approximately \$10.1 million, were used to finance a portion of the construction costs of the Cancer Hospital, and to pay for certain bond issuance costs. The bond premium is being amortized and was included in capitalized interest through March 2010. As of the opening of the Cancer Hospital, the bond premium is being amortized in the statement of operations. The Series J revenue bonds were issued in three subseries as follows: (1) Series J-1, approximately \$174.4 million, consisting of approximately \$83.7 million of serial bonds and approximately \$90.7 million in term bonds bearing interest at 5% per annum; (2) Series J-2, approximately \$40.0 million of revenue bonds bearing interest at 3.65% at September 30, 2007; (3) Series J-3, approximately \$66.5 million of revenue bonds bearing interest 3.70% at September 30, 2007. Series J-2 and J-3 revenue bonds were refunded during the year ended September 30, 2008 by the issuance of Series L revenue bonds.

In May 2008, the Hospital issued Series K and Series L revenue bonds totaling approximately \$216.6 million. The Series K revenue bonds were issued as Variable Rate Demand Bonds ("VRDBs") in two sub-series, Series K-1 and K-2, approximately \$54.6 million each, with an effective rate of 1.1% in 2011 and 2010. The proceeds from the Series K issuance were used to refund the Series I revenue bonds. The Series L revenue bonds were issued as VRDBs in two sub-series, Series L-1 and L-2, approximately \$53.7 million each, with an effective rate of 0.8% in 2012 and 2011. The proceeds from the Series L issuance were used to refund the Series J-2 and J-3 revenue bonds.

Both the Series K and Series L VRDBs are required to be supported by letter of credit facilities ("LOCs") which have been executed with two financial institutions. These LOCs are scheduled to expire on May 2, 2016 and May 14, 2016.

In December 2010, the Hospital issued Series M revenue bonds totaling approximately \$104.4 million. The proceeds, including a premium of approximately \$1.0 million, are being used to finance costs for the expansion and renovations to the Adult Emergency Department, the purchase and installation of machinery and equipment, various renovations and improvements to the Hospital's infrastructure, and to pay for certain bond issuance costs. The bond premium is being amortized and is included in capitalized interest. The Series M revenue bonds were issued as one series consisting of approximately \$33.9 million of serial bonds bearing interest at 4.69%, and approximately \$17.6 million, \$17.8 million, and \$35.1 million in term bonds bearing interest at 5.25%, 5.75%, and 5.50%, respectively, per annum.

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

On August 30, 2011, the Hospital entered into a loan agreement with Bank of America, N.A. ("Bank") for \$40.0 million. The Hospital agrees to repay the Bank the aggregate principal amount in five equal annual payments of \$8.0 million, beginning on October 1, 2012. The loan shall bear interest at a rate equal to LIBOR plus 0.50% per annum with an option to convert to a fixed loan upon formal notification to the Bank, which may include a portion of or the total outstanding loan balance at the time notification is made.

In July 2012, the Hospital entered into a line of credit with the Bank in the amount of \$27.0 million which was subsequently increased to \$187.0 million upon the execution of the HSR asset purchase agreement. In July 2012, the Hospital drew the unconditional loan of \$27.0 million to outfit a new facility. In September 2012, the Hospital drew the remaining \$160.0 million to fund the acquisition of HSR. The line of credit requires the Hospital to repay the Bank in 24 equal monthly installments commencing on August 1, 2013. The full amount of the remaining balance is due on July 12, 2015. This obligation bears interest at a rate equal to LIBOR plus 0.45% per annum.

In September 2012, the Hospital drew on its \$50.0 million line of credit with the U.S. Bank, established in January 2012, in the amount of \$25.0 million. The U.S. Bank line of credit requires repayment of the aggregate principal amount on the 364th day subsequent to the advance. This obligation bears interest at a rate equal to LIBOR plus 0.50% per annum.

The terms of the various financing arrangements between CHEFA and the Hospital, the financial institutions providing the LOCs and the Hospital, and the Bank and the Hospital provide for financial covenants regarding the Hospital's debt service coverage ratio, liquidity ratio, and debt to capitalization ratio, among others. As of September 30, 2012 and 2011, the Hospital was in compliance with these covenants.

Sinking fund installment amounts are to be made in accordance with the Series J, K, L, and M financing agreements. Required monthly payments on the revenue bonds by the Hospital to a trustee are in amounts sufficient to provide for the payments of principal, interest, and sinking fund installments, in accordance with the terms of the agreements, and certain other annual costs of CHEFA.

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

Scheduled principal payments on all debt, including capital lease obligations, are as follows (in thousands):

	Debt	Capital Lease Obligations
2013	\$ 45,424	\$ 60,035
2014 2015	204,512 19,445	5,950 6,150
2016 2017	19,945 20,425	6,235 5,679
Thereafter	\$ 713,926	63,810
Less interest		(35,224)
Less interest		\$ 112,635

Capitalized interest at September 30, 2012 and 2011 totaled \$26.9 million and \$24.9 million, respectively.

The Hospital has entered into interest rate swap agreements with financial institutions related to the Hospital's Series K and Series L debt, and future obligations. The Series K and Series L swaps were carried over as part of the refunding of the Series I and Series J debt. On September 20, 2012, the Hospital entered into a Forward Starting Interest Rate swap, a LIBOR Swap Rate Lock and a SIFMA Rate Lock swap with two different counterparties. The agreements require the Hospital to pay a fixed rate and receive a floating rate based on LIBOR or SIFMA. The change in market value, as well as the net interest paid or received under the swap agreement, for the Series J/Series L swap has been capitalized as part of the interest costs related to construction of the Cancer Hospital until construction was complete. Once the Cancer Hospital became operational these amounts were recorded in the statements of operations.

The swap agreements fix the interest rate at a level viewed as desirable by the Hospital. Such agreements expose the Hospital to credit risk in the event of non-performance by the counterparties, some of which is collateralized. At September 30, 2012 and 2011, the fair value of all swap agreements based on current interest rates was approximately \$39.3 million and \$31.9 million, respectively, representing a payable to the counterparties (recorded in other long-term liabilities).

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

For the Series K swap, there was an unfavorable change in fair value of approximately \$0.9 million for the years ended September 30, 2012 and 2011 which was recorded in the excess of revenue over expenses. As a result of the unfavorable change in market value of the Series K swap, \$4.6 million and \$4.2 million has been collateralized by the Hospital and is being held by the financial institution as of September 30, 2012 and 2011, as required by the swap agreement.

For the Series L swaps, there was an unfavorable change in fair value of approximately \$2.0 million and \$3.5 million for the years ended September 30, 2012 and 2011, respectively, which was recorded in excess of revenue over expenses. No collateral was required under the Series L swap agreement for the years ended September 30, 2012 and 2011.

For the Forward Starting Interest Rate swap, the LIBOR Swap Rate Lock and the SIFMA Rate Lock swaps, there was an unfavorable change in fair value of \$1.0 million, \$1.9 million, and \$1.6 million, respectively, for the year ended September 30, 2012, which was recorded in excess of revenue over expenses.

The following table summarizes the Hospital's interest rate swap agreements (in thousands):

	Expiration	Hospital	Hospital		Amount at aber 30,
Swap Type	Date	Receives	Pays	2012	2011
Series K – Fixed to Floating	July 1, 2025	LIBOR	3.11%	\$ 63,977	\$ 66,269
Series L – Fixed to Floating	July 1, 2036	LIBOR	3.68%	44,505	44,505
Forward Starting Interest		67% of			
Rate Swap	July 1, 2053	LIBOR	2.84%	50,000	_
LIBOR Swap Rate Lock	July 1, 2043	LIBOR	2.73%	92,000	_
SIFMA Rate Lock	July 1, 2048	SIFMA	2.66%	50,000	
				\$ 300,482	\$ 110,774

For the years ended September 30, 2012 and 2011, YNHNC paid approximately \$16.5 million and \$15.8 million, respectively, for interest related to long-term debt.

Arbitrage rules apply for Series J-1 and Series M tax-exempt debt. The rules require that, in specified circumstances, earnings from the investment of tax-exempt bond proceeds which exceed the yield on the bonds must be remitted to the Federal government.

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

In September 2008, SSC obtained a line of credit in the amount of \$1,000,000. The interest was payable at the bank's prime rate through March 31, 2009. On April 1, 2009, the LOC converted to a fixed term loan due in equal monthly installments through August 31, 2013. The amount outstanding at September 30, 2012 and 2011 was \$226,000 and \$452,000, respectively.

The debt agreements of SSC include the pledging as collateral SSC's owned equipment and fixtures, inventory and receivables. The debt agreements contain covenants related to the maintenance of financial ratios, including debt service coverage and days cash on hand. At September 30, 2012 and 2011, SSC was in compliance with the financial ratio covenants.

The Hospital has entered into a contract to lease space in a building adjacent to the Hospital. The Hospital's rental obligation commenced December 2009. This lease has a term of twenty years from the commencement date with the option to extend the lease for four successive terms of ten consecutive years. Rental payments will increase by 5% every five years. The Hospital is also subject to additional rent for its share of expenses, as defined in the contract. The Hospital has the option to purchase the property at the end of the fifth, tenth, or twentieth years or at the end of each of the first three ten-year extension periods.

The Hospital has entered into an agreement to lease space in a building located at 2 Howe Street, New Haven, Connecticut. The Hospital's rental obligation commenced during the first quarter of fiscal 2010. The Hospital will lease these spaces for three years after which the Hospital has the obligation to purchase the property for approximately \$53.6 million.

Assets recorded under the capital lease obligations totaled \$128.0 million and 115.8 million as of September 30, 2012 and 2011. Accumulated depreciation for the capital lease obligations totaled \$17.9 million and \$13.5 million at September 30, 2012 and 2011, respectively.

8. Pensions and Postretirement Benefits

YNHNC has qualified and non-qualified defined benefit pension plans covering substantially all employees and executives. The benefits provided are based on age, years of service and compensation. YNHNC's policy is to fund the pension benefits with at least the minimum amounts required by the Employee Retirement Income Security Act of 1974.

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

The employees formerly employed by SRHS will receive credit for such past service solely for purposes of determining such employee's eligibility to participate in the qualified defined benefit pension plan and vesting under this plan, but not for purposes of establishing an opening accumulation account or for any other purpose under this plan.

YNHNC also sponsors contributory 403(b) and 401(k) plans covering substantially all employees. YNHNC's contributions for the 403(b) plan are determined based on employee contributions and years of service. Contributions to the 401(k) plans are determined based on employee compensation and years of service. YNHNC contributed approximately \$11.9 million and \$10.9 million for the years ended September 30, 2012 and 2011, respectively. YNHNC maintains a Section 457 non-qualified deferred compensation plan. Contributions are made on a pre-tax basis. The balances recorded at September 30, 2012 and 2011 in other assets and other long-term liabilities were \$21.7 million and \$18.4 million, respectively. The employees formerly employed by SRHS shall receive credit for such past service solely for purposes of determining such employee's eligibility to participate in the contributory 403(b) plan and vesting under this plan but not for any other purpose under this plan.

YNHNC also provides certain health care and life insurance benefits upon retirement to substantially all its employees. YNHNC's policy is to fund these annual costs as they are incurred from the general assets of YNHNC. The estimated cost of these postretirement benefits is actuarially determined and accrued over the employees' service periods.

Included in unrestricted net assets at September 30, 2012 and 2011 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of \$0.1 million and \$0.3 million, respectively, and unrecognized actuarial losses of \$183.6 million and \$129.7 million, respectively. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2013 are \$0.8 million and \$9.6 million, respectively.

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

The following table sets forth the change in benefit obligation, change in plan assets, and the reconciliation of underfunded status of YNHNC's defined benefit plans as of September 30, 2012 and 2011 (in thousands):

	Defined Benefit Pension Plans				Postretirement Benefits Plan			
		2012		2011		2012	2011	
Change in benefit obligation:								
Benefit obligation at prior measurement date	\$	405,642	\$	374,050	\$	63,687	\$	58,103
Service cost		22,106		18,385		3,442		3,092
Interest cost		18,803		17,407		3,183		3,014
Actuarial loss		53,111		13,409		10,588		818
Benefits paid		(24,189)		(17,609)		(1,270)		(1,340)
Benefit obligation at current measurement date		475,473		405,642		79,630		63,687
Change in plan assets:								
Fair value of assets at prior measurement date		225,895		228,281		_		_
Actual return on plan assets		25,511		2,338		_		_
Employer contributions		44,735		12,885		1,270		1,340
Benefits paid		(24,189)		(17,609)		(1,270)		(1,340)
Fair value of assets at current measurement date		271,952		225,895		_		_
Accrued benefit cost	\$	(203,521)	\$	(179,747)	\$	(79,630)	\$	(63,687)

Benefit Obligation and Assumptions

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the defined benefit plans were as follows (in thousands):

Accumulated benefit obligation	(475,473) \$ (398,939) 271,952	(405,642) (342,050) 225,895

At September 30, 2012 and 2011, the underfunded status of the qualified defined benefit pension plan was approximately \$154.1 million and \$136.8 million, respectively, and that of the non-qualified defined benefit pension plan was approximately \$49.4 million and \$43.0 million, respectively. Additionally, there are assets limited as to use of approximately \$64.7 million and \$58.4 million, which are available to satisfy the obligations of the non-qualified defined benefit pension plan at September 30, 2012 and 2011, respectively.

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

The net periodic benefit cost for the years ended September 30, 2012 and 2011 is as follows (in thousands):

		l Benefit n Plans	Postretirement Benefits Plan			
	2012	2012 2011		2011		
Service cost	\$ 22,106	\$ 18,385	\$ 3,442	\$ 3,092		
Interest cost	18,803	17,407	3,183	3,014		
Expected return on plan assets	(20,521)	(19,350)	_	_		
Amortization of prior service cost	(462)	(462)	259	264		
Recognized net actuarial loss	4,738	2,711	_	_		
Net periodic benefit cost	\$ 24,664	\$ 18,691	\$ 6,884	\$ 6,370		

Weighted-average assumptions and dates used to determine benefit obligations at September 30, 2012 and 2011 are as follows:

		Benefit n Plans	Postretirement Benefits Plan		
	2012	2011	2012	2011	
Discount rate for determining benefit obligations at year-end, qualified plan	3.60%	4.80%	4.00%	5.10%	
Discount rate for determining benefit obligations at year end, non-qualified plan	4.00	5.10	_	_	
Rate of compensation increase	5.00	5.00	_	_	

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2012 and 2011 are as follows:

	Defined Pension		Postreti Benefi	
	2012	2011	2012	2011
Discount rate for determining net periodic benefit cost at year-end, qualified plan Discount rate for determining net periodic	4.80%	4.8%	5.10%	5.30%
benefit cost at year end, non-qualified plan	5.10	5.30	_	_
Expected rate of return on plan assets	7.75	7.75	_	_
Rate of compensation increase	5.00	5.00	_	_

For measurement purposes relating to the postretirement benefits plan, a 7.0% and 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2012 and fiscal 2011, respectively. Rates are assumed to decline to 4.0% through fiscal 2014.

Assumed health care cost trend rate assumptions have a significant effect on the amounts reported. A 1% change in the assumed healthcare cost trend rate would have the following effects (in thousands):

	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 13	\$ (15)
Effect on postretirement benefit obligation	142	(144)

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

The asset allocation of YNHNC's qualified pension plan at September 30, 2012 and 2011 was as follows:

	Target Allocation	Percentage of Plan Assets			
Asset Category	2013	2012	2011		
Equity securities	42%	42%	41%		
Debt securities	26	26	28		
Real assets	21	21	12		
All other assets	11	11	19		
Total	100%	100%	100%		

Pension assets carried at fair value, as of September 30, 2012 and 2011 are classified in the following tables (see Footnote 14 for description) (in thousands):

	September 30, 2012							
	Level 1		Level 2		Level 3			Total
Money market funds	\$	18,306	\$	_	\$	_	\$	18,306
U.S. equity securities		53,150		_		_		53,150
International equity securities		58,819		_		_		58,819
Fixed income:								
U.S. government		53,392		_		_		53,392
International government		12,985		6,425		_		19,410
Commodities		5,469		_		6,127		11,596
Private Equity		_		_		509		509
Hedge funds:								
Absolute return		_		32,115		_		32,115
Long/short equity		_		7,871		_		7,871
Real estate		_		_		16,784		16,784
Total investments	\$	202,121	\$	46,411	\$	23,420	\$	271,952

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

	September 30, 2011							
	I	Level 1		vel 2	Level 3			Total
Money market funds	\$	4,673	\$	_	\$	_	\$	4,673
U.S. equity securities		47,070		_		_		47,070
International equity securities		45,118		_		_		45,118
Fixed income:								
U.S. government		51,551		_		_		51,551
International government		13,260		_		_		13,260
Commodities		4,923		_		5,745		10,668
Private equity		_		_		331		331
Hedge funds:								
Absolute return		_	29	,362		_		29,362
Long/short equity		_	8	,235		_		8,235
Real estate		_		_	1	5,627		15,627
Total investments	\$	166,595	\$ 37	,597	\$ 2	1,703	\$	225,895

The following is a rollforward of the pension assets classified as Level 3 of the valuation hierarchy as described in Note 15:

		Private	Real	
	Commodities	Equity	Estate	Total
Fair value at September 30, 2010 2011 Realized and unrealized gains and	\$ 5,852	\$ -	\$ 14,599	\$ 20,451
losses	686	_	3,049	3,735
2011 Purchases, sales, transfers, issuances and settlements, net	(793)	331	(2,021)	(2,483)
Fair value at September 30, 2011	5,745	331	15,627	21,703
2012 Realized and unrealized gains and losses	18	(57)	206	167
2012 Purchases, sales, transfers, issuances and settlements, net	364	235	951	1,550
Fair value at September 30, 2012	\$ 6,127	\$ 509	\$16,784	\$ 23,420

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

YNHNC's investment strategy for its pension assets balances the liquidity needs of the pension plan with the long-term return goals necessary to satisfy future pension obligations. The target asset allocation seeks to capture the equity premium granted by the capital markets over the long-term while ensuring security of principal to meet near-term expenses and obligations through the fixed income allocation. The allocation of the investment pool to various sectors of the markets is designed to reduce volatility in the portfolio. YNHNC's pension portfolio return assumption of 7.75% is based on the targeted weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension expenses. The actual return on assets of the pension plan for the years ended September 30, 2012 and 2011 was 11.1% and 2.7%, respectively.

The future cash flows of YNHNC relative to retirement benefits are expected to be as follows (in thousands):

		Defined Benefit Pension Plans		ostretirement Benefits Plan
Estimated benefit payments related to year	ars			
ending September 30:				
2013	\$	35,244	\$	2,521
2014		35,199		2,832
2015		36,398		3,063
2016		36,570		3,316
2017		38,078		3,646
2018 to 2022		202,611		24,096

The Hospital expects to contribute approximately \$41.6 million for pension benefits and \$2.5 million for postretirement benefits payments in fiscal 2013.

Notes to Consolidated Financial Statements (continued)

9. Professional Liability Insurance

In 1978, the Hospital and a number of other academic medical centers formed the Medical Centre Insurance Company, Ltd (the "Captive") to insure for professional and comprehensive general liability risks. In 1997, the Captive formed MCIC Vermont, Inc. to write direct insurance for the professional and general liability risks of the shareholders. Since 1997, the Captive has acted as a reinsurer for varying levels of per claim limit exposure. MCIC Vermont, Inc. has reinsurance coverage from outside reinsurers for amounts above the per claim limits. Premiums are based on modified claims made coverage and are actuarially determined based on actual experience of the Hospital, the Captive and MCIC Vermont, Inc.

In fiscal 1998, the Hospital entered into a purchase and sales management agreement with YNHHSC that transferred the Hospital's participation in the Captive to YNHHSC for its book value as calculated by the Captive. Under the terms of the agreement, the Hospital retains certain elements of control and assumes limited risk associated with the ongoing operation of the Captive. The Hospital pays insurance premiums to YNHHSC.

Additionally, because the purchase and sales management agreement entered into with YNHHSC in 1998 meet criteria for deposit accounting, the Hospital recorded an actuarially determined liability for IBNR professional and general liabilities with an offsetting deposit (asset) of an equal amount (approximately \$11.8 million).

The estimate for modified claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$84.5 million and \$89 million at September 30, 2012 and 2011, respectively for the Hospital. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$29.7 million and \$30.4 million for the Hospital at September 30, 2012 and 2011, respectively, and is included in professional insurance liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately \$28.5 million and \$25.4 million, respectively, based on a discount rate of 3.0% and 3.5% for the years ended September 30, 2012 and 2011, respectively.

The Hospital has recorded related insurance recoveries receivable of approximately \$56.0 million and \$63.6 million at September 30, 2012 and 2011, respectively, in consideration of the expected insurance recoveries for the total discounted modified claims-made insurance. The current portion of professional liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

Notes to Consolidated Financial Statements (continued)

9. Professional Liability Insurance (continued)

Lukan, the Hospital sponsored professional liability program, continues to manage all incidents and claims reported to Lukan prior to the acquisition of SRHS, as well as extending professional liability coverage for post acquisition risks to certain affiliated community clinicians.

Prior to the acquisition of SRHS, Caritas provided excess professional liability and general liability insurance to SRHS and their employed clinicians. Caritas continues to manage all incidents and claims reported prior to the acquisition of SRHS.

Caritas and Lukan have recorded the undiscounted estimate for claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated of approximately \$36.6 million at September 30, 2012 and are included in professional liabilities in the accompanying consolidated statements of financial position.

The estimates for professional insurance liabilities are based upon complex actuarial calculations which utilize factors such as historical claims experience for YNHNC and related industry factors, trending models, estimates for the payment patterns of future claims and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

10. Commitments and Contingencies

Leases

YNHNC leases certain office, clinical and parking spaces under non-cancelable operating leases that range in terms ending in 2012 through 2023. Future minimum lease payments under these leases are as follows (in thousands):

2013	\$ 12,680
2014	11,125
2015	8,180
2016	7,448
2017	6,350
Thereafter	18,018
	\$ 63,801

Notes to Consolidated Financial Statements (continued)

10. Commitments and Contingencies (continued)

YNHNC incurred net rent expense under these leases of approximately \$11.2 million for the year ended September 30, 2012 and \$11.1 million for the year ended 2011.

Cancer Hospital

The Hospital has a shared facilities and services agreement with the University in connection with the Cancer Hospital which is recorded as deferred revenue. Deferred revenue, from this agreement, at September 30, 2012 and 2011 was \$46.6 million and \$48.3 million, respectively.

Litigation

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against YNHNC. Such lawsuits and claims are either specifically covered by insurance as explained in Note 9 or are deemed to be immaterial. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the consolidated financial position or changes in net assets of YNHNC.

YNHNC has received requests for information from certain governmental agencies relating to, among other things, patient billings. These requests cover several prior years relating to compliance with certain laws and regulations. Management is cooperating with those governmental agencies in their information requests and ongoing investigations. The ultimate results of those investigations, including the impact on YNHNC, cannot be determined at this time.

11. Functional Expenses

YNHNC provides general acute health care services to residents within its geographic area. Net expenses related to providing these services are as follows (in thousands):

		Ended mber 30						
	2012 2011							
Health care services General and administrative	\$ 1,457,430 217,777	\$ 1,264,292 188,917						
	\$ 1,675,207	\$ 1,453,209						

Notes to Consolidated Financial Statements (continued)

12. Related Party Transactions

YNHNC provided facility space and certain services to related parties as follows (in thousands):

		r Ended ember 30
	2012	2011
Recovery of expenses:		_
YNHHSC:		
Facility rental	\$ 2,883	\$ 2,736
Shared services	230	2,322
Other	_	1,190
	\$ 3,113	\$ 6,248
Bridgeport Hospital:		
Resident fees	\$ 2,379	\$ 2,444
Other	1,107	1,000
	\$ 3,486	\$ 3,444

YNHHSC is the sole member of Bridgeport Hospital Healthcare Services, Inc., which is the sole member of Bridgeport Hospital.

YNHNC purchased certain services from YNHHSC as follows (in thousands):

	Ended nber 30
2012	2011
•	
\$ 21,088	\$ 20,758
37,675	18,807
17,812	15,268
67,884	48,029
\$ 144,459	\$ 102,862
	Septer 2012 \$ 21,088 37,675 17,812 67,884

Notes to Consolidated Financial Statements (continued)

12. Related Party Transactions (continued)

Amounts receivable from and payable to related organizations included in other receivables, accounts payable and other long-term liabilities, respectively, in the consolidated balance sheets are as follows (in thousands):

	September 30 2012 2011						
	2012	2011					
Other receivables:		_					
YNHHSC	\$ 2,320	\$ 2,974					
Bridgeport Hospital	· -	- 362					
Greenwich Hospital	560	23					
Northeast Medical Group, Inc		- 340					
-	\$ 2,880	5 \$ 3,699					
Accounts payable: YNHHSC Greenwich Hospital Bridgeport Hospital Northeast Medical Group, Inc Other long-term liabilities: YNHHSC	\$ 28,555 1,50 2,912 42,38 \$ 75,35	51 1 – 2 340 5 38,162					
	<u>\$ /5,35.</u>	\$ 03,221					

YNHNC maintains certain investments for YNHHSC employees that participate in YNHNC's sponsored benefit plans. The costs associated with the YNHHSC employees that participate in benefit plans are recovered by YNHNC.

YNHNC funds certain capital assets purchased by YNHHSC. Included in prepaid expenses and other assets were approximately \$13.9 million and \$49.8 million, respectively, at September 30, 2012 and approximately \$2.7 million and \$30.7 million, respectively, at September 30, 2011.

Additionally, for the years ended September 30, 2012 and 2011, YNHNC funded YNHHSC approximately \$9.0 million and \$12.0 million, respectively, as part of its participation in the New Clinical Program Development Corporation ("NCPDC"). The NCPDC was established for the purpose of funding and supporting clinical research and clinical programs. The NCPDC Board approves the funding of initiatives.

Notes to Consolidated Financial Statements (continued)

13. Other Revenue

Other revenue consisted of the following (in thousands):

	Year Ended				
	September 30 2012 2011				
	2012	2011			
Cafeteria and vending	\$ 7,756	\$ 7,129			
Contributions	2,960	2,667			
Parking income	4,087	3,555			
Net assets released from restrictions for operations	2,962	5,003			
Net assets released from restrictions for free care	889	782			
Net assets released from restrictions for medical research and					
clinical programs	12,804	16,195			
Grants	8,314	7,432			
Rental income	1,660	1,404			
Electronic health records incentive payment	2,649	_			
Other	5,437	4,090			
	\$ 49,518	\$ 48,257			

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). The provisions were designed to increase the use of electronic health record ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

Notes to Consolidated Financial Statements (continued)

13. Other Revenue (continued)

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. EHR incentive payment revenue totaling \$2.6 million for Medicaid for the year ended September 30, 2012, is included in other revenue in the accompanying 2012 consolidated statement of operations. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

14. Non-Operating Gains (Losses)

Non-operating gains and losses consisted of the following (in thousands)

		Ended nber 30
	2012	2011
Income from investments, donations and other, net Gain on sale of Medical Center Pharmacy, net of taxes Change in unrealized gains and losses on investments Change in fair value of swaps, including counterparty payments Acquisition costs related to Saint Raphael Healthcare System FICA Tax Refund	\$ 4,660 - 47,986 (12,610) (22,103) 4,920	\$ 17,336 3,238 (1,949) (9,781) (6,051) 10,915
	\$ 22,853	\$ 13,708

15. Fair Values of Financial Instruments

In determining fair value, YNHNC utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. YNHNC also considers nonperformance risk in the overall assessment of fair value.

Notes to Consolidated Financial Statements (continued)

15. Fair Values of Financial Instruments (continued)

ASC No. 820-10 establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

- <u>Level 1</u>: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.
- <u>Level 2:</u> Observable inputs that are based on data not quoted in active markets, but corroborated by market data.
- <u>Level 3:</u> Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

Financial assets carried at fair value as of September 30, 2012 are classified in the following table in one of the three categories described above (in thousands):

		Septembe	er 30, 2012	
	Level 1	Total		
Cash and cash equivalents Money market funds U.S. equity securities International equity securities Fixed income:	\$ 69,453 156,663 28,378 40,019	\$ - - - -	\$ - - - -	\$ 69,453 156,663 28,378 40,019
U.S. government International government Interest in Yale University endowment pool Investments at fair value	87,329 26,227 - \$ 408,069	17,009 - \$ 17,009	361,550 \$ 361,550	87,329 43,236 361,550 786,628
Common collective trusts Alternative investments Perpetual trusts Investments not at fair value Total investments				89,203 71,400 12,127 172,730 \$ 959,358
Liabilities: Interest rate swaps	\$	\$ (39,269)	\$	\$ (39,269)

Notes to Consolidated Financial Statements (continued)

15. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value as of September 30, 2011 are classified in the following table in one of the three categories described above (in thousands):

	September 30, 2011									
	Level 1	Level 2	Level 3	Total						
Cash and cash equivalents	\$ 74,087	\$ -	\$ -	\$ 74,087						
Money market funds	108,579	_	_	108,579						
U.S. equity securities	11,113	_	_	11,113						
International equity securities	37,523	_	_	37,523						
Fixed income:										
U.S. government	41,719	_	_	41,719						
International government	31,704	_	_	31,704						
Interest in Yale University endowment pool		_	278,719	278,719						
Investments at fair value	\$ 304,725	\$ -	\$ 278,719	583,444						
				_						
Common collective trusts				91,524						
Alternative investments				68,614						
Perpetual trusts				10,906						
Investments not at fair value				171,044						
Total investments				\$ 754,488						
Liabilities:										
Interest rate swaps	\$ -	\$ (31,951)	\$	\$ (31,951)						

The following is a rollforward of assets classified as Level 3 of the valuation hierarchy:

Interest in Yale University Endowment Pool	
Fair value at September 30, 2010	\$ 175,332
2011 Unrealized gains and losses	15,641
2011 Purchases	87,746
Fair value at September 30, 2011	278,719
2012 Unrealized gains and losses	38,570
2012 Purchases	44,261
Fair value at September 30, 2012	\$ 361,550

Notes to Consolidated Financial Statements (continued)

15. Fair Values of Financial Instruments (continued)

The fair value of long-term debt was approximately \$741.9 million and \$529.4 million at September 30, 2012 and 2011, respectively. The fair value of the capital leases was approximately \$128.7 million and \$126.0 million at September 30, 2012 and 2011, respectively.

The amounts reported in the table as detailed above do not include assets invested in the Hospital's defined benefit pension plan (see Note 8). In addition, included in the table above are investments at September 30, 2012 and 2011 in common collective trusts totaling approximately \$89.2 million and \$91.5 million, respectively, other alternative investments totaling approximately \$71.4 million and \$68.6 million, respectively, and perpetual trusts totaling approximately \$12.1 million and \$10.9 million, respectively, that are accounted for under the equity method of accounting (see Note 1). The interest rate swaps listed above are classified in the accompanying balance sheets as other long-term liabilities at September 30, 2012 and 2011.

The following is a summary of total investments as of September 30, 2011 with restrictions to redeem the investments at the measurement date, any unfunded capital commitments and investment strategies of the investees (in thousands):

Unfur Carrying Commi					Redemption	Notice	Funds Availability		
Description of Investment	. 8		iption of Investment Value s Frequency P						
Hedge Funds:									
Long/short equity	\$	12,205	\$	_	Annually	100 days	December 31		
Absolute return		48,614		_	Annually	100 days	December 31		
Real Estate		9,905		3,507	N/A	N/A	N/A		
Commodities		676		9,963	N/A	N/A	N/A		

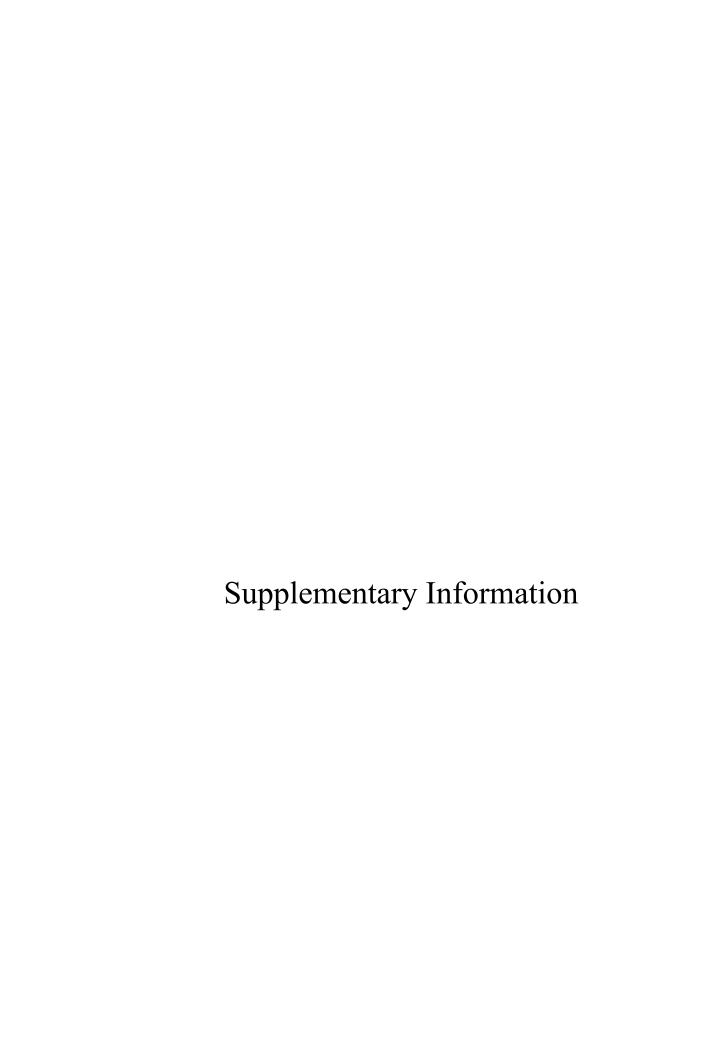
Notes to Consolidated Financial Statements (continued)

16. Medical Residents FICA Tax Refund

In March 2010, the Internal Revenue Service ("IRS") announced that, for periods ending before April 1, 2005, medical residents would be eligible for student exception of Federal Insurance Contributions Act ("FICA") taxes. Under the student exception, FICA taxes do not apply to wages for services performed by students employed by a school, college, or university where the student is pursuing a course of study. As a result, the IRS will allow refunds for institutions that file timely FICA refund claims and provide certain information to meet the requirements of perfection, established by the IRS, for their claims applicable to periods prior to April 1, 2005. Institutions are potentially eligible for medical resident FICA refunds for both the employer and employee portions of FICA taxes paid, plus statutory interest. For the year ended September 30, 2012 and 2011, the Hospital has recorded estimated net revenue of approximately \$4.9 million and \$10.9 million, respectively, in non-operating gains and losses, related to FICA medical resident refunds claims that have met the IRS refund requirements. At September 30, 2012 and 2011, the Hospital recorded a net receivable of approximately \$18.2 million and \$24.7 million, respectively included in other assets and a payable of approximately \$13.8 million at September 30, 2012 and 2011 included in other long-term liabilities. The Hospital has established its estimate based on information presently available and this estimate is subject to change as the IRS adjudicates the claims.

17. Subsequent Events

Subsequent events have been evaluated through December 21, 2012, which is the date the financial statements were available to be issued. No events have occurred that require disclosure or adjustment of the financial statements.





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Report of Independent Auditors on Supplementary Information

Board of Trustees YNH Network Corporation and Subsidiaries

We have audited the consolidated financial statements of YNH Network Corporation and Subsidiaries as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated December 21, 2012 which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheets and consolidating statement of operations and change in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statement as a whole.

Ernst + Young LLP

December 21, 2012

Consolidating Balance Sheet

September 30, 2012 (In Thousands)

	YN	HNC]	Hospital	ASC	York	C	СНСР	QMPC	Yľ	NHCCC	Eliminations	Total
Assets													
Current assets:													
Cash and cash equivalents	\$	244	\$	64,557	\$ 2,896	\$ 1,683	\$	-	\$ 5	\$	68	\$ -	\$ 69,453
Short-term investments		_		613,360	_	_		_	_		_	_	613,360
Accounts receivable for services to patients, net		_		202,909	2,007	138		_	_		650	_	205,704
Other receivables		661		48,641	14	78		17	2		407	(613)	49,207
Professional liabilities insurance recoveries receivable –													
current portion		_		15,739	_	_		_	_		_	_	15,739
Other current assets		_		47,394	1,719	357		_	_		_	_	49,470
Amounts on deposit with trustee in debt service fund		_		6,619	_	_		_	_		_	_	6,619
Total current assets		905		999,219	6,636	2,256		17	7		1,125	(613)	1,009,552
Assets limited as to use		_		105,688	_	_		_	_		_	_	105,688
Long-term investments		_		164,238	_	_		_	_		_	_	164,238
Deferred financing costs, less accumulated amortization		_		5,182	_	_		_	_		_	_	5,182
Professional liabilities insurance recoveries receivable –				,									,
non-current portion		_		40,271	_	_		_	_		_	_	40,271
Goodwill		_		35,685	_	_		_	_		_	_	35,685
Other assets		8,706		177,199	12,671	971		1	1		701	(25,206)	175,044
Property, plant, and equipment:													
Land and land improvements		_		33,191	_	2,338		_	_		1,580	_	37,109
Buildings and fixtures		_		1,068,530	4,315	14,859		_	_		2,127	_	1,089,831
Equipment		_		426,413	3,416	64		_	5		368	_	430,266
		_		1,528,134	7,731	17,261		_	5		4,075	_	1,557,206
Less accumulated depreciation		_		601,670	4,645	11,159		_	4		10	_	617,488
				926,464	3,086	6,102		-	1		4,065	_	939,718
Construction in progress		_		63,603	_	_		_	_		_	_	63,603
		_		990,067	3,086	6,102		_	1		4,065	_	1,003,321
Total assets	\$	9,611	\$	2,517,549	\$ 22,393	\$ 9,329	\$	18	\$ 9	\$	5,891	\$ (25,819)	\$ 2,538,981

Consolidating Balance Sheet (continued)

September 30, 2012 (In Thousands)

	YN	NHNC	Hospi	ital	A	ASC	York	Cl	НСР	Q	MPC	Y	NHCCC	Eli	minations	Total
Liabilities and net assets (deficiency)																
Current liabilities:																
Accounts payable	\$	57	\$ 134	,051	\$	1,210 \$	510	\$	_	\$	1,399	\$	358	\$	(613)	\$ 136,972
Accrued expenses		28	168	,508		493	454		_		_		761		_	170,244
Professional liabilities- current portion		_	15	,739		_	_		_		_		_		_	15,739
Other current liabilities		_	2	,926		_	_		_		_		509		_	3,435
Current portion of capital lease obligation		_	55	,292		_	948		_		_		_		_	56,240
Current portion of long term debt		_	45	,198		226	_		_		_		_		_	45,424
Total current liabilities		85	421	,714		1,929	1,912		_		1,399		1,628		(613)	428,054
Long-term debt, net of current portion		_	674	,969		_			_		_		_		_	674,969
Long-term capital lease obligation, net of current portion		_	52	,237		_	4,158		_		_		_		_	56,395
Accrued pension and postretirement benefit obligations		_	280	,718		_	_		_		_		_		_	280,718
Professional liabilities		_	105	,313		_	_		_		_		_		_	105,313
Other long-term liabilities		_	180	,195		12,561	77		_		_		4,275		(16,500)	180,608
Deferred revenue		_	53	,625		_	_		_		_		_		_	53,625
Total liabilities		85	1,768	,771		14,490	6,147		_		1,399		5,903		(17,113)	1,779,682
Net assets (deficiency):																
Unrestricted		9,526	676	,008		7,903	3,182		18		(1,390)		(12)		(8,706)	686,529
Temporarily restricted		_	46	,026		_	_		_		_		_			46,026
Permanently restricted		_	26	,744		_	_		_		_		_		_	26,744
Total net assets (deficiency)		9,526	748	,778		7,903	3,182		18		(1,390)		(12)		(8,706)	759,299
Total liabilities and net assets (deficiency)	\$	9,611	\$ 2,517	,549	\$	22,393 \$	9,329	\$	18	\$	9	\$	5,891	\$	(25,819)	\$ 2,538,981

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2012 (In Thousands)

					YNH Care								
	YN	HNC	Hospital	ASC		York	CHCP	•	QMPC	Continuun	n Eli	minations	Total
Operating revenue:													
Net patient service revenue	\$	_	\$ 1,713,271	\$ 19,138	\$	194	\$ -	- \$	4	\$ 645	\$	_	\$ 1,733,252
Other revenue		3,150	47,684	166		1,660	-	-	_	2		(3,144)	49,518
Total operating revenue	-	3,150	1,760,955	19,304		1,854	-	-	4	647		(3,144)	1,782,770
Operating expenses:													
Salaries and benefits		_	757,263	7,117		_	-	-	_	460		_	764,840
Supplies and other expenses	,	2,143	758,058	7,480		1182	-	-	(43)	152		(10)	768,962
Depreciation		_	73,101	807		705	-	-	_	10		_	74,623
Insurance		_	15,680	130		_	-	-	_	5		_	15,815
Bad debts		_	32,622	209		_	-	-	_	32		_	32,863
Interest		_	17,720	18		366	-	-	_	_		_	18,104
Total operating expenses		2,143	1,654,444	15,761		2,253	-	-	(43)	659		(10)	1,675,207
Income (loss) from operations		1,007	106,511	3,543		(399)	-	-	47	(12)		(3,134)	107,563
Nonoperating gains (losses), net:	<u> </u>	1,396	24,098	(1,446)		210	_	-	(1)	_		(1,404)	22,853
Excess (deficiency) of revenue over expenses		2,403	130,609	2,097		(189)	-	-	46	(12)		(4,538)	130,416

(Continued on next page.)

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2012 (In Thousands)

							YNH Care		
	YNHNC	Hospital	ASC	York	CHCP	QMPC	Continuum	Eliminations	Total
Unrestricted net assets:									
Excess (deficiency) of revenue over expenses (continued)	\$ 2,403	\$ 130,609	\$2,097	\$(189)	\$ -	\$ 46	\$ (12)	\$ (4,538)	\$ 130,416
Other changes in net assets	(2,640)	342	55	_	_	_	_	2,640	397
Transfer (to) from YNH Network Corporation	(456)	456	(2,500)	_	-	_	_	2,500	_
Transfer to Yale-New Haven Health Services Corporation									
 Clinical Development Fund 	_	(9,000)	_	_	_	_	_	_	(9,000)
Transfer from Yale-New Haven Health Services									
Corporation	_	2,900	_	_	_	_	_	_	2,900
Net assets released from restrictions for purchases of									
fixed assets	_	258	_	_	_	_	_	_	258
Pension and other postretirement liability adjustments	_	(54,174)	_	_	_	_	_	_	(54,174)
Increase (decrease) in unrestricted net assets	(693)	71,391	(348)	(189)	_	46	(12)	602	70,797
Temporarily restricted net assets:									
Income from investments	_	280	_	_	_	_	_	_	280
Net realized gains on investments	_	471	_	_	_	_	_	_	471
Change in net unrealized gains and losses on investments	_	6,394	_	_	_	_	_	_	6,394
Bequests and contributions	_	11,847	_	_	_	_	_	_	11,847
Net assets released from restrictions for purchases of									
fixed assets	_	(258)	_	_	_	_	_	_	(258)
Net assets released from restrictions for free care	_	(889)	_	_	_	_	_	_	(889)
Net assets released from restrictions for operations	_	(2,962)	_	_	_	_	_	_	(2,962)
Net assets released from restrictions for clinical programs	_	(12,804)	_	_	_	_	_	_	(12,804)
Increase in temporarily restricted net assets	_	2,079	_	_	_	_	_	_	2,079
Permanently restricted net assets:									
Change in beneficial interest in perpetual trusts	_	1,221	_	_	_	_	_	_	1,221
Increase in permanently restricted net assets	_	1,221	_	_	_	_	_	_	1,221
(Decrease) increase in net assets	(693)	74,691	(348)	(189)		46	(12)	602	74,097
Net assets (deficiency) at beginning of year	10,219	674,087	8,251	3,371	18	(1,436)	` '	(9,308)	685,202
Net assets (deficiency) at end of year	\$ 9,526	\$ 748,778	\$7,903	\$3,182	\$ 18	\$ (1,390)	\$ (12)	\$ (8,706)	\$ 759,299

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